

Message Text

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SUBJECT: KOIVISTO CONTINUES TIGHTENING OF CREDIT

REF: HELSINKI 2213

1. BEGIN UNCLASSIFIED: SUMMARY: BANK OF FINLAND'S TIGHT MONETARY POLICY HAS JUST BEGUN. CENTRAL BANK WILL LIMIT 1977 LONG-TERM FOREIGN BORROWING TO FMK 4 BILLION AND HAS GIVEN COMMERCIAL BANKS TIGHTER SELECTIVE CREDIT GUIDELINES. TIGHT MONETARY POLICY MAY PUSH SEVERAL FIRMS INTO BANKRUPTCY, WILL AGGRAVATE GROWING UNEMPLOYMENT AND WILL MAKE IT VERY DIFFICULT FOR EMPLOYERS TO PAY EVEN SMALL WAGE INCREASE IN 1977. END SUMMARY.

2. ON NOV 25 GOVERNOR OF BANK OF FINLAND, MAUNO KOIVISTO, ANNOUNCED TO PRESS THAT HIS TIGHT MONETARY POLICY HAS JUST BEGUN AND THAT NEXT YEAR LOANS WILL BE MORE DIFFICULT TO OBTAIN THAN THEY HAVE BEEN THIS YEAR. IN ADDITION TO
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LOWERING CENTRAL BANK BORROWING QUOTAS FOR COMMERCIAL

BANKS (REFTEL), KOIVISTO STATED THAT LONG-TERM (MORE THAN 12 MONTHS) FOREIGN BORROWING WILL BE RESTRICTED TO FMK 4 BILLION. IN PRACTICE THIS MEANS THAT ONLY THOSE INVESTMENTS WHICH HAVE ALREADY BEEN APPROVED BY BANK OF FINLAND WILL BE ABLE TO DRAW ON FOREIGN CREDIT IN 1977. RESTRICTION OF FOREIGN CAPITAL IMPORTS WILL RESULT IN INTERRUPTION AND POSTPONEMENT OF SEVERAL LARGE INVESTMENT PROJECTS, PARTICULARLY POWER STATIONS.

3. AS PART OF TIGHT MONETARY POLICY, BANK OF FINLAND HAS GIVEN COMMERCIAL BANKS NEW CREDIT GUIDELINES. GUIDELINES FAVOR FIRMS THAT ARE ABLE TO PRODUCE FOR IMMEDIATE SALE AND INVESTMENT PROJECTS WHICH ARE VERY PROFITABLE AND WILL NOT CREATE IDLE CAPACITY. GUIDELINES WILL REDUCE LENDING FOR IMPORTS, CONSUMER DURABLES, NON-PRODUCTIVE COMMERCIAL INVESTMENTS AND EXPANSION OF SERVICES.

4. KOIVISTO STATED THAT IT IS POSSIBLE TO REDUCE 1977 CURRENT ACCOUNT DEFICIT TO FMK 1.5 BILLION (1975 AND 1976 CURRENT ACCOUNT DEFICITS RESPECTIVELY FMK 8.0 AND FMK 3.5 BILLION). SINCE NET FOREIGN INTEREST PAYMENTS WILL EXCEED FMK 2.0 BILLION IN 1977, KOIVISTO HOPES THAT FINLAND'S VISIBLE AND INVISIBLE TRADE ACCOUNT WILL BE IN FMK 500 MILLION SURPLUS NEXT YEAR. TIGHT MONETARY POLICY WILL REDUCE IMPORTS WHICH WILL ACCOUNT FOR MUCH OF IMPROVEMENT IN TRADE BALANCE.

5. FINNISH FIRMS TEND TO BE MORE HEAVILY DEPENDENT ON BANK SUPPLIED CREDIT THAN OTHER WESTERN FIRMS. FURTHER TIGHTENING OF CREDIT WILL MAKE IT INCREASINGLY MORE DIFFICULT FOR MANY FIRMS TO FINANCE NORMAL FLOW OF GOODS FROM PRODUCTION TO CONSUMPTION. LEADING COMMERCIAL BANK PRESIDENTS HAVE ALREADY EXPRESSED FEAR THAT TIGHTENING OF CREDIT WILL MAKE SEVERAL FIRMS ILLIQUID AND FORCE THEM INTO BANKRUPTCY. END UNCLSSIFIED.

6. BEGIN LIMITED OFFICIAL USE: COMMENT: FOR MORE THAN TWO YEARS FINLAND HAS RELIED ON FOREIGN BORROWING TO SUSTAIN INCREASES OF REAL INCOMES IN THE FACE OF LIMITED OFFICIAL USE

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DECLINING GROSS NATIONAL PRODUCT. KOIVISTO'S ANNOUNCEMENT TO LIMIT FOREIGN BORROWING TO FMK 4 BILLION MEANS THAT FINLAND IN 1977 WILL NOT HAVE ACCESS TO FOREIGN CAPITAL MARKETS TO INCREASE REAL INCOMES. TIGHTENING OF CREDIT ALSO MEANS THAT EMPLOYERS WILL NOT HAVE THE MONEY TO PAY FOR HIGH WAGE DEMANDS. SEPPO LINDBLOM, ONE OF SIX DIRECTORS AT BANK OF FINLAND, TOLD EMBOFF THAT MAJOR TARGET OF KOIVISTO'S RECENT

TIGHT MONETARY POLICY IS CENTRALIZED WAGE AGREEMENT WHICH
WILL BE NEGOTIATED IN JANUARY. KOIVISTO HOPES TO
COMMUNICATE TO BOTH WORKERS AND THE EMPLOYERS THAT
CENTRAL BANK WILL NOT FINANCE PAYMENT OF HIGH WAGE
SETTLEMENT. KOIVISTO WANTS TO REDUCE FINLAND'S HIGH
INFLATION BELOW OECD RATE SO THAT FINLAND CAN REGAIN
ITS INTERNATIONAL COMPETITIVENESS. HE SEES TIGHT
MONETARY POLICY ACCOMPANIED WITH MODERATE WAGE
SETTLEMENT AS ONLY WAY TO ACHIEVE THIS GOAL.
END LOU.
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